AOD-203

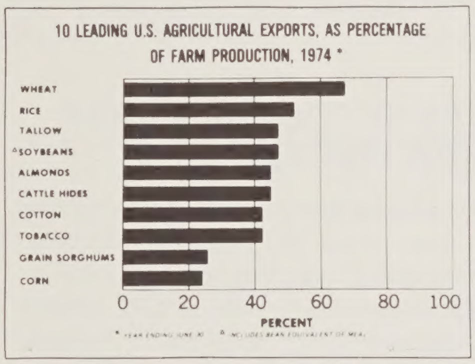
AGRICULTURAL OUTLOOK DIGEST

Approved by the Outlook and Situation Board, September 25, 1974

FOREIGN FOOD CUSTOMERS SHARE ECONOMIC HEADACHES

The world's need for food this year is as great as ever, but the economics of food are cutting down our foreign customers' ability to buy. Commodity prices continue upward, meaning that last year's dollars, yen, or marks buy less food. Soaring inflation has also impinged on import purchasing power of some countries.

Meanwhile, our own food and other agricultural exports mean more dollars to U.S. farmers than history has ever recorded. The value of farm exports at dockside escalated by two-thirds during fiscal year 1974, to $21.3 billion. The business of processing and shipping farm products for overseas markets is a boon to the economy, and the exchange dollars farm exports earn help pay for imports.



Because of our reduced 1974 crops, especially feed grains and soybeans, their high prices, and the sluggish economies of many nations, our exports are going to slide in volume. Over 100 million metric tons left U.S. ports in fiscal year 1974, but only 75 million tons may be shipped in fiscal year 1975.

That doesn't mean that U.S. farmers will get significantly fewer dollars from export sales, however. Agricultural export prices are likely to top the record of fiscal year 1974, which could virtually offset the drop in volume.

Because of the importance of farm exports, *Agricultural Outlook Digest* will take a two-part look at the prospects for fiscal year 1975. This article will sketch the background, with the supply situation for major commodities and a look at the

Continued on p. 4.

SLOW ECONOMIES, HIGH INFLATION AFFECT ALL

As indicated by OECD estimates and projections, the average rate of real economic growth in major U.S. overseas markets (Japan, Germany, United Kingdom, Italy, France, and Canada) was practically nil in the first half of 1974, but growth is projected to resume in the second half of 1974 and pick up in the first half of 1975.

Inflation continues to be a major headache in developed nations. For 20 OECD nations (including the United States) the average annual rate of inflation was about 5.2 percent in December 1972. In April this year it averaged about 12.6 percent.

The range of inflation rates in April was from 7.1 percent (Germany) to 32.6 percent (Greece). Incomes in nearly all countries have increased at nearly an equal pace, however, and overseas demand is still growing, although at a very low rate.

There is no shortage of foreign exchange in major countries, but how much of it will be left to pay for agricultural imports after this year's oil imports are paid for? The answer varies by country: Italy, France, the United Kingdom, Japan, and the Scandanavian countries are having the hardest time coping. While Italy and Denmark have resorted to restricting imports, other countries have largely avoided this measure.

It is widely feared that deteriorating economies and soaring oil bills might set off a worldwide round of trade restrictions—a trade war detrimental to all. So far, though, it hasn't happened.

For the most part, the less developed nations have been hard hit by high prices for food, petroleum, and fertilizer. To relieve some of the pressures from high oil prices on these nations—as well as all other oil importing nations—the International Monetary Fund (IMF) has instituted an "Oil Facility". This will permit nations to draw foreign exchange from the IMF beyond what they otherwise could have drawn.

The funds available under this facility are limited to about $3.6 billion—not sufficient to cover expected requirements. The funds for the Oil Facility are to be borrowed by the IMF from various oil exporting nations and the rate of interest, to lenders and borrowers alike, will be 7 percent.

Agricultural Outlook Digest is published by the Economic Research Service, U.S. Department of Agriculture.

TIGHTNESS FOR FATS AND OILS

The 1974 soybean crop is forecast at 1.32 billion bushels, but disappearance during 1974/75 may range as high as 1.43 billion, returning us to a 'pipeline'-level carryover.

Domestic and foreign use of soybeans will be held below last season's record levels by reduced supplies and high prices. Use of soybeans oils and meal will be similarly restricted. But precise utilization forecasts can't be made yet because of many uncertainties in domestic and foreign economies and in the livestock sector.

Even with heavy harvesting, soybean prices are averaging $7 per bushel. Concern that frost damage might reduce the crop has added to price strength. For the year, prices paid to farmers for soybeans may average close to $8 per bushel.

Domestic soybean crushings are being limited to well below full crushing capacity, which suggests less favorable crushers' margins. Despite heavy advance export bookings of soybeans, actual exports are forecast at 515-535 million bushels, down from last season because of our tight supplies and larger fats and oils supplies in other countries.

Cottonseed output should be up 5 percent this year at 5.2 million tons; supplies are only 4 percent greater because carryover stocks are lower. Considerably higher prices for cottonseed this season reflect the heavy demand for cottonseed oil, record high in price. Nearly all oil supplies of 1.8 billion pounds will be used: 1.1 billion here and 0.6 billion abroad. Though exports of cottonseed meal will similarly remain the same as in the previous year, domestic demand is 10 percent greater, and prices, while high, will fall below those in 1973.

Drought has dropped flaxseed production 13 percent to 14 million bushels; supplies, 15 percent lower, are the lowest on record, at 17 million bushels. Some 1 million will be exported; more would be, if available. High prices continue, well above both last year's and the support level. Prices are high for linseed oil, too, a record; both supplies and production are down.

GREAT TOBACCO CROP AND PRICES

Farmers' flue-cured tobacco hit the auction block in mid-July this year, the earliest opening on record. By September 12, over one-half of the 1974 crop was marketed. Auction prices were chanted to record highs, 6 percent higher than a year ago. Through much of September prices averaged $1.04 per pound.

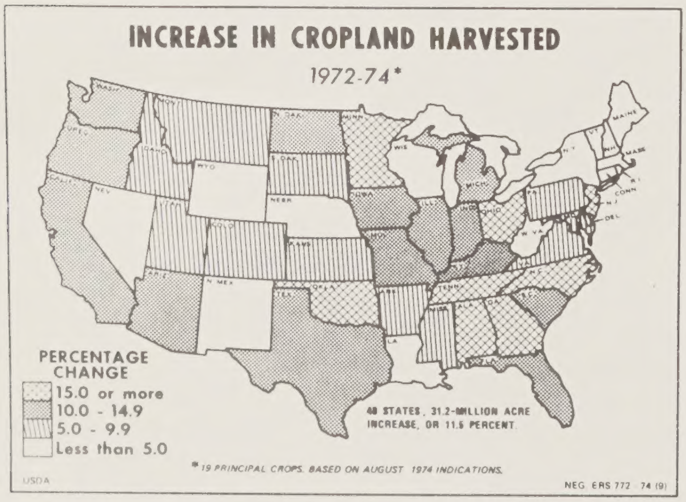
This year's tobacco crop is in good shape in comparison with the other major U.S. field crops, primarily because tobacco is grown outside of the drought-hit areas. Even though the crop is estimated one-seventh larger than 1973's, a smaller carryover into 1974/75 is reducing marketing year supplies. This will make a tenth year of declining supplies.

U.S. cigarette production gains and strong demand for high-value tobacco in foreign markets mean record levels of use for U.S. flue-cured. Burley is also benefiting from the worldwide surge in blended cigarette output. Although the effect has yet to be felt, the global sag in consumer incomes will undoubtedly affect the U.S. tobacco industry.

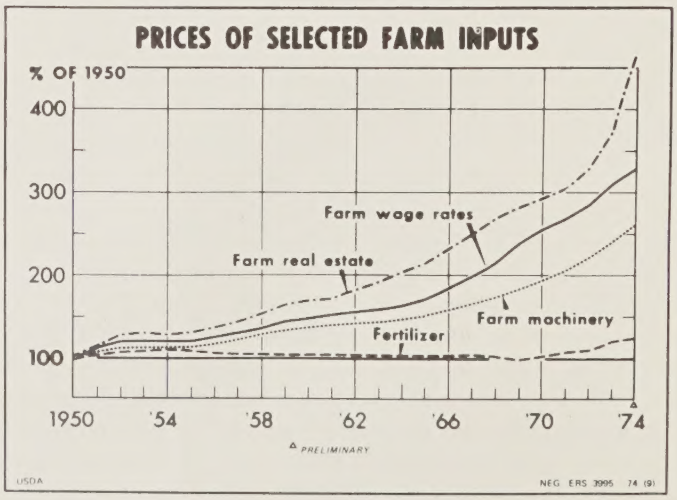
Cigarette consumption is increasing in the United States. Persons 18 and older may smoke enough this year to raise total consumption 4 percent above the 1973 record. Per capita cigarette use will continue its uptrend and top 1973's 208 packs. The peak was 217 packs per capita in 1963.

Despite lower tobacco supplies and higher prices, leaf exports this fiscal year may equal last season's 657 million pounds. With stocks in foreign countries reduced and production shortfalls still in evidence, this year's crop, particularly flue-cured, has been actively sought by buyers. The United Kingdom, one of our best customers, increased 1973/74 takings, but may take less this season. Japan is expected to take more and West Germany about the same.

In the past couple of years, the number of acres in cultivation and the cost of farming each acre have risen in tandem. In fact, with the demand for added acreage the input which has risen most steeply in price is land itself. These charts come from the 1975 Handbook of Agricultural Charts, which will be published by the Economic Research Service in October.



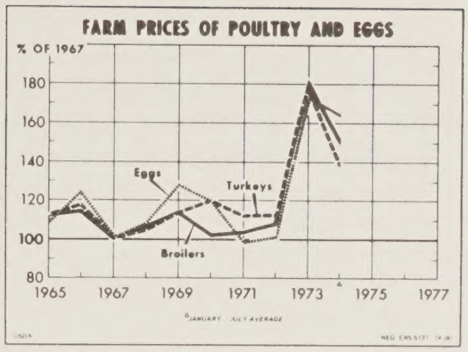
UPTRENDS



COSTS CHECK HATCHINGS

High production costs and low profitability in recent months have given poultry producers no incentive to increase production. Broiler output for this fall will be well below this summer and a year earlier. Turkey production is slipping under year-earlier levels. Egg sets for November-December broiler marketings are down around a tenth.

For the rest of 1974, egg production will increase seasonally but will be moderately below a year earlier. Egg output has been plodding along below the previous year since April 1972 and will continue to lag well into 1975. To the joy of consumers and the despair of eggmen,



prices have been well below year-earlier levels since mid-April, but have made substantial gains this summer. Prices will probably continue strong this winter but should weaken typically this coming spring.

Even though cold storage broiler stocks are presently up substantially, broiler meat supplies for October-December will be down around a tenth from the same period in 1973. Price strengthening effects from reduced output will be partly offset by larger red meat supplies and eroded consumer purchasing power.

Turkey prices in recent months gained more than originally expected. The USDA purchases for the school lunch program supplemented hold-backs of turkeys by growers in propping prices. Look for strong prices for the rest of 1974 and into 1975; but gains will be limited, what with large turkey supplies and more red meat at grocery stores.

Declining domestic egg prices downed imports 22 percent for shell eggs and egg products for the first 7 months of 1974. Exports, conversely, were up 55 percent, mostly for dried eggs and shell eggs.

COWS MAY GET SHORTER RATIONS

Drought torpedoed this year's feed grain and soybean crop prospects. This gloomy news will likely translate into higher feed prices for dairy farmers in coming months. As of August, the milk-feed price ratio (pounds of feed equal in value to one pound of milk) was 1.10—the lowest August figure since 1947.

On July 1, farmers reported feeding an average 12.6 pounds of grain and concentrates per day to their cows, up 5 percent from a year ago. But the current feed situation may limit grain feeding and reduce milk production during the upcoming barn feeding season.

Summer milk production showed wide variations among production regions. Increases were centered in the Northeast, Lake States, South, and on the West Coast. The sharpest declines were in drought areas.

U.S. milk output rose above year-earlier levels in July and August for the first time since September 1972. Output per cow increased about 3 percent in August over last year's depressed levels, and the decline in milk cow numbers slackened in the first half. Farmers averaged $7.62 per 100 pounds for milk in August, about 6 percent higher than August 1973, but down 15 percent from the March peak. Milk prices will likely increase seasonally this fall and winter, paralleling expected strength in the products market.

Wholesale butter and American cheese prices strengthened in late summer after hugging CCC support prices since April and May. Nonfat dry milk continued at support purchase levels, though.

MORE RICE

More acres and better yields are shooting rice production for 1974/75 up 22 percent to 113.5 million hundredweight. A larger August 1 carryover (7.9 million hundredweight) is further enlarging supplies.

Domestic rice use will continue its uptrend, helped by lower retail prices. Exports will rise, perhaps to 61 million hundredweight, to fill demand created by a shorter world rice crop.

Despite these use increases, ending stocks may build up to nearly triple the 7.9 million bushel forecast for this August, the only significant stocks gain in store among U.S. grain crops.

Rice was selling for $17/hundred-weight in March. But new crop rice was being quoted in August at under $10. Farmers are withholding rice from the market. Farmers' prices for the 1974 crop are likely to average well above the loan rate of $7.54 but under the 1973 average of $13.80.

HOGS AND PIGS DECLINE

The September 1 survey of hogs and pigs on farms in 14 States shows a downturn in the hog business underway. There were less hogs and pigs on farms than last year including 10 percent fewer breeding hogs. Weight groups of market hogs on hand indicated heavy slaughter in the near term followed by reductions in slaughter early next year. Farrowing intentions show that farmers are planning for reduced pig crops in first-half 1975.

14-State Hogs and Pigs Survey, September 1, 1974

	Number	Percentage of a year earlier
	Mil.	*Pct.*
All hogs and pigs on farms	50.18	96
Kept for breeding	6.83	90
Market	43.35	97
Market, by weight		
Under 60 lbs.	16.60	93
60-119 lbs.	11.65	99
120-179 lbs.	8.98	98
180-219 lbs.	5.05	103
220 lbs. +	1.07	108
Sows farrowing		
Dec.-May 1974	5.50	98
June-Aug.-1974	2.42	96
Sept.-Nov.-1974*	2.31	90
Dec. 1974-Feb. 1975*	2.02	90

*Farmers' intentions.

ECONOMIC HEADACHES, from p. 1.

economic conditions that affect farm trade. Next month's issue will present detailed forecasts of fiscal year 1975 farm exports, prepared jointly by the Economic Research Service and Foreign Agricultural Service.

Grain Trade Troubles

Fiscal year 1975 began with world grain stocks at a 20-year low. On top of this, grain production during the year may sink around 30 million metric tons below the fiscal year 1974 record of 1.176 billion tons. Disappointing harvests in the Northern Hemisphere are mainly to blame. Prospects are brighter for Southern Hemisphere crops, which will be harvested later in the fiscal year. With supplies very tight, prices are expected to remain high.

The supply and price situation is sending world grain trade into a slump. Less wheat and feed grains will be available for export from the United States and the other top exporters. On the other hand, wheat and feed grain output in many developing countries that depend on grain imports has improved. The reverse is true for rice: developed nations have good crops while developing nations may grow less.

Wheat

With wheat production in two of the four top exporting countries—the United States and Canada—below levels of last fiscal year, net world wheat exports (which knock out transshipments and double counting) will fall from 56.4 million metric tons to 53.5 million. Our share of this world total will drop from over half last year to about 26 million tons—or less than half of this year's forecast world total.

Although population growth is increasing wheat needs in developing countries, their improved crops will be offsetting. However, India, plagued by dry weather, and neighboring Bangladesh, washed by flood, are exceptions. India has been buying wheat and other grains heavily recently, and may ask for food aid. Bangladesh will continue to depend on food aid to make up deficits.

Wheat output is dropping in both the USSR and the People's Republic of China. Output in all Communist nations may be down 10-15 million tons during fiscal year 1975. The USSR can offset a smaller wheat harvest by using more feed grains for livestock. China apparently will import more wheat, roughly a third coming from the United States.

Feed Grains

Last year we shipped 65 percent of the feed grains moving in world trade. This year we may ship only about 40 percent. World net exports of feed grains may plunge some 16-17 million metric tons to 45.3 million, a return to the levels of the late 1960's.

As of September 1, prospects were for a 160 million metric ton U.S. feed grain crop, down 27 million tons from the 1973 record. This could cut exports by about 25 million tons. Outside the United States, world feed grain crops total 419 million tons, 4 million more than last year. Russia may harvest a record 100 million tons.

For factual information about important food and farming topics, check this spot. It highlights recent reports on the issues, chosen for brevity and clarity. To get a copy of the report, clip and send to address indicated with your name, address and zip code.

Farm-retail Spreads for Red Meat, 24 pp. This is the report that Secretary Butz ordered to explain what happened to costs and profits in the meat-packing and retailing business in the past year. Discusses reasons for the "explosion" in this farm-retail price spread, and offers some ways the spread might be narrowed in the future.

NAME ____________________

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Clip and send to:
Meat, Economic Research Service, rm. 482-GHI, U.S. Dept. Agri., Washington, D.C. 20250.

Even with reduced feed grain trade, world use may top this year's reduced production and drive down stocks at the close of fiscal year 1975 to the lowest level on record.

Rice

Demand for rice rises every year because of population growth. Most rice is consumed where it's grown; only 4 percent moves in world trade.

Contrasting with other grains, we are in a commanding position to export rice in a tight world market. Our crop will be record large if hurricane Carmen hasn't ruined too much. U.S. net exports may rise from 1.64 million metric tons to 2.13 million in the marketing year which began August 1, to account for about one-fourth of world exports.

Rice crops in Asia, which account for 90 percent of the world total, are down slightly this year, with declines in India, Bangladesh, Thailand, and Burma. Production in the People's Republic of China, which grows a third of all rice, may hold its own.

Outside Asia, however, rice production is up by perhaps a tenth for fiscal year 1974/75. The United States, USSR, Brazil, and Africa are enjoying larger production.

Oils and Meals,

Smaller U.S. soybean output is pulling down 1974 world oil and meal production in an otherwise improved year. Using September 1 soybean crop prospects, our smaller crop would reduce U.S. soybean meal output 7 million metric tons, and oil output about a million tons.

The impact on 1975 world meal supplies may be mostly offset. Our own carryin of soybeans on September 1, 1974, was up sharply to about 4.7 million tons. World meal production outside the United States is up 2-3 million tons.

World oil supplies for 1975, largely determined by this year's oilseed production, will be less affected by our soybean situation, and may drop only a half-million metric tons. The USSR is contributing slightly less sunflowerseed oil, but there will be more soybean oil from Brazil, peanut oil from Africa, and palm and coconut oils from East Asia.